

## Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 ISO-00 AGRE-00 CEA-01 CIAE-00  
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03  
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15  
STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02 OMB-01  
DOE-11 /102 W

-----111070 040227Z /63

R 032145Z MAR 78  
FM AMEMBASSY BRASILIA  
TO SECSTATE WASHDC 6376  
INFO AMCONSUL RIO DE JANEIRO  
AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 1 OF 2 BRASILIA 1668

PASS TREASURY FOR BERGSTEN AND HUFBAUER.

E.O. 11652: GDS  
TAGS: ETRD, EFIN, BR  
SUBJECT: TREASURY TEAM TALKS IN BRAZIL (3RD OF 3 MESSAGES):  
COUNTERVAILING DUTY CASES

1. IN CONCLUDING SESSIONS 1-2 MAR, TREASURY AND GOB REPS  
DISCUSSED THE PENDING INVESTIGATION INVOLVING TEXTILE MILL  
PRODUCTS AND THE STATUS OF THE DUTY COMPUTATION FOR  
FOOTWEAR. U.S. DELEGATE (SELF) EXPLAINED THAT THERE  
WERE CERTAIN ALLEGATIONS (REGIONAL INCENTIVES, SPECIAL  
TAX INCENTIVES FOR BEFIEX APPROVED INDUSTRIES, AND  
BENEFITS TO ENTERPRISES LOCATED IN MANAUS FREE TRADE ZONE)  
IN ADDITION TO THOSE CONSIDERED IN PREVIOUS COUNTERVAILING  
CASES. DORNELLES REVEALED THAT THE FEDERAL IPI CREDIT  
HAD BEEN INCREASED FOR ALL EXPORTS TO COMPENSATE FOR  
RECENT ELIMINATION OF TAX CREDITS ON THE STATE ICM TAX.  
HE ADDED THAT IPI CREDIT RECIPIENTS ARE NOW PERMITTED,  
UNDER CERTAIN CIRCUMSTANCES, TO DISCOUNT ALL OR A PORTION  
OF THE REMAINING CREDIT THAT HERETO COULD BE USED  
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SOLELY TO FULFILL TAX OBLIGATIONS. WHILE DORNELLES  
COULD NOT WITH PRECISION ESTIMATE THE QUANTITATIVE  
IMPACT ON THE DISCOUNT PROVISION, IT WAS CLEAR THAT THE  
EFFECTIVE SUBSIDY RESULTING FROM THE IPI CREDIT HAS  
BEEN INCREASED MEANINGFULLY.

2. DORNELLES AGREED TO PROVIDE UPDATED INFORMATION ON EXPORT

INCENTIVES IN RESPONSE TO QUESTIONNAIRE PROVIDED BY U.S. DELEGATION IN CONNECTION WITH TEXTILE INVESTIGATION. ON OTHER HAND, HE MADE STRONG STATEMENTS AGAINST ANY CVD ON TEXTILES ON GROUNDS THAT IT WOULD BE INCONSISTENT WITH PROVISION S IN EXISTING U.S.-BRAZIL TEXTILE AGREEMENT. HE ARGUED THAT BRAZIL ALREADY HAS ACCEPTED QUOTA RESTRAINT ON EXPORTS OF TEXTILES TO U.S. AND THAT TERMS OF AGREEMENT PRECLUDE ANY FURTHER RECOURSE BY U.S. TO RESTRICTIONS. HUGBAUER INDICATED UNDESIRABILITY OF GIVING PRIORITY EMPHASIS TO RELIANCE ON QUOTAS AND BILATERAL ARRANGEMENTS. HE SAID HE WOULD CONVEY GOB CONCERN TO WASHINGTON AND LOOK INTO LEGAL ISSUE OF CVD ON PRODUCTS COVERED BY BILATERAL TRADE AGREEMENT.

3. SELF EXPLAINED THE NECESSITY OF RECALCULATING THE COUNTERVAILING DUTY ON SHOE IMPORTS, SINCE OUR PRESENT RATE IS BASED ON 1973 TAX INFORMATION. PURSUANT TO THE SIMON-SIMONSEN AGREEMENT IN 1976, TREASURY AGREED TO REFRAIN FROM REASSESSING THE DUTY BEFORE THE END OF 1977. TREASURY IS ANXIOUS TO UPDATE ITS INFORMATION EXPECIALLY IN LIGHT OF RECENT CHANGES IN IPI INCENTIVE APPLICATION. DORNELLES ASKED THAT A RECALCULATION BE POSTPONED FOR THE FOLLOWING REASONS: (1) BRAZILIAN SHOE EXPORTS TO THE U.S. HAS DECLINED BY 32 PERCENT; (2) THE MATTER IS POLITICALLY SENSITIVE DUE TO THE OWNERSHIP OF SEVERAL SHOE EXPORTING FACILITIES BY  
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INDUSTRIAL LEADERS AND DUE TO THE DIRECT INTEREST OF CERTAIN GOVERNMENT OFFICIALS; (3) OUR UNDERTAKING TO RECALCULATE WOULD SPREAD QUICKLY TO U.S. IMPORTERS CREATING A TRADE-CHILLING EFFECT. U.S. DELEGATION

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STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02 OMB-01

DOE-11 /102 W

-----111094 040225Z /63

R 032145Z MAR 78

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 6377

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

C O N F I D E N T I A L SECTION 2 OF 2 BRASILIA 1668

PASS TREASURY FOR BERGSTEN AND HUFBAUER

SAID IT WOULD CONSIDER THE BRAZILIAN REQUEST BUT AT THE VERY MOST WE COULD CONSIDER POSTPONEMENT ONLY IF SUCH A DELAY WERE COUPLED WITH A MEMORANDUM OF UNDERSTANDING BETWEEN BRAZIL AND THE UNITED STATES INSURING A COMPLETED RECALCULATION BY DECEMBER 31, 1978 IN THE EVENT THAT A SATISFACTORY AGREEMENT ON SUBSIDIES/CVD IS NOT REACHED BEFORE THAT DATE IN THE MTN.

4. BRAZILIAN DELEGATE (BOTAFOGO) NOTED THE DANISH BUTTER COOKIE WAIVER, CONDITIONED AS IT WAS ON ABSENCE OF AGGRESSIVE EXPORT SALES AND NO PRICE CUTS, BUT WITH NO CONDITION OF SUBSIDY PHASE OUT. HE INDICATED THAT HE SAW IN THE CASE A SIGNIFICANT PRECEDENT FOR U.S. POLICY.

5. TREASURY SPOKESMAN SELF RAISED THE PROBLEM OF GOB'S REFUSAL SINCE 1974 TO PERMIT US CUSTOMS REPRESENTATIVES TO CONDUCT INQUIRIES IN BRAZIL  
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IN CONNECTION WITH THE ORDINARY FRAUD AND TECHNICAL INVESTIGATIONS THAT REQUIRE THEIR PRESENCE AT FOREIGN COMPANY FACILITIES. HE STRESSED THAT THE U.S. IS WILLING TO COMPLY WITH ANY FORMALITIES GOB MAY REQUIRE, BUT THAT IMPORTANT CONCERN WAS OUR ABILITY TO FULFILL INVESTIGATORY OBLIGATIONS THAT U.S. DOMESTIC LAW IMPOSES. IT WAS FURTHER STRESSED THAT U.S. CUSTOMS SEES THIS EXERCISE AS A TWO-WAY STREET, WHERE AN EXCHANGE OF INTELLIGENCE BENEFICIAL TO BOTH COUNTRIES COULD EVOLVE. BRAZILIANS (BOTAFOGO AND DORNELLES) SEEMED RECEPTIVE TO THE IDEA. DORNELLES EXPLAINED THAT THE NECESSARY FIRST STEP WAS A FORMAL COMMUNICATION TO THE MINISTRY OF EXTERNAL RELATIONS INDICATING SPECIFIC AREAS WHERE CUSTOMS REQUIRES A FOREIGN INQUIRY. IT WAS EMPHASIZED BY GOB REPS THAT COUNTERVAILING DUTY INQUIRIES COULD NOT BE ON THE LIST FOR THE LIST TO BE ACCEPTABLE TO THE GOB. FOLLOWING APPROVAL BY THE MINISTRY OF

EXTERNAL RELATIONS, THE TREASURY WOULD ADVISE THE  
MINISTRY OF FINANCE BEFORE A CUSTOMS AGRENT CONDUCTED  
A PARTICULAR INQUIRY. TREASURY DELEGATION SAID GOB  
WOULD BE RECEIVING FORMAL REQUEST SHORTLY ON THIS  
MATTER.  
JOHNSON

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCE, COUNTRY TEAM, MEETINGS, COUNTERVAILING DUTIES  
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**Copy:** SINGLE  
**Draft Date:** 03 mar 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
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**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
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**Review Exemptions:** n/a  
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**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
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**Secure:** OPEN  
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**To:** STATE  
**Type:** TE  
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**Review Markings:**  
Sheryl P. Walter  
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US Department of State  
EO Systematic Review  
20 Mar 2014  
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